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Good afternoon.

Thank you, Antonio and to the Master's Programme in European Economic Governance of the Carlos III University, for inviting us to this inauguration for the course on European Union Fiscal Rules.

I am delighted to be here today to share with you some insights on how to boost competitiveness in the European Union in this complex and uncertain geopolitical context. I would like to contribute to the debate from the perspective of capital markets, as they can play a major role in boosting competitiveness in the EU.

Current situation. Recent proposals.

The European Commission published its Competitiveness Compass last month. It is a new roadmap to restore Europe's dynamism and boost our economic growth. This Compass builds on the analysis carried out in Mario Draghi's report regarding the future of European competitiveness, in addition to providing a strategic framework to establish a guideline of the Commission' work during its mandate.

The Competitiveness Compass aims to turn the imperatives identified in the Draghi report into reality. Let me reiterate those imperatives: a shared response to the innovation gap, to the lack of strategy for decarbonisation and competitiveness and to increasing security and reducing dependencies.

Today, I will address some aspects of the first two imperatives that are related to capital markets.

Where are we?

We are losing our ability to attract investment, and we need greater productive investment to bolster economic growth and change the economic model. The Draghi report places these additional investment needs at 800 billion euros per year, around 5% of GDP. These figures are a clear representation of the magnitude of the challenge and the urgency. To change the economic model, the EU needs to mobilise financing and diversify the funding sources beyond bank credits.

How to attract investment?

I would like to draw your attention to the role stock markets play in making investing more attractive.

Stock markets are an important public asset to preserve, as they are an efficient mechanism to allocate economic resources, in addition to being transparent in their price formation processes.

There have been several initiatives over the last 10 years to support markets and make going public and fund raising easier for companies, but this has not been enough and in fact, the figures in the last few years have gone in the opposite direction. European companies, particularly small and medium-sized enterprises (SMEs), tend to have less accessibility to capital markets financing.

Why?

This can be explained partly by cultural factors. Unlike in the US, European companies have traditionally held a tendency to finance themselves through bank loans or debt issuance, and they feel safer by doing so. The size of our companies (problem of scaling) and the risk aversion are key factors. The number of new companies taping into equity markets has declined in the EU since 2008. If we add this fact to the exclusions from trading, the consequence is a sharp decline in the number of listed companies in the EU.

We need to make a shift in such tendencies in Europe, which can be achieved by implementing an attractive, as well as robust, legal framework and solid supervision in which to operate. We also can be active communicating the virtues and advantages of engaging with capital markets which of course must make reference to the risks too. This should facilitate well-informed individuals and companies to view market participation as a strategic financial decision. To achieve this, we need to invest resources in financial literacy, as we will see in a moment.

The EU is home to € 33 trillion in private savings (Letta's Report), most of them in bank deposits. These savings could be mobilized via the capital markets to finance, for instance, digital and green transitions.

The objective is for savings to be channeled towards those who need funds to invest. That is why we are talking about the Savings and Investment Union now.

So, what can we do to encourage this move?

I will discuss 4 aspects:

1) **Addressing Tax asymmetry.** Addressing tax asymmetry is paramount to encourage companies to choose equity financing over debt. Provide a more favourable taxation framework for equity financing, as opposed to a more favorable regime for bonds. Most European countries treat debt more favorably than equity.

   They do so by allowing interest payments to be deducted from taxable income, but do not offer the same allowance when funding through equity. This gives businesses an incentive no to raise capital.

2) **Simplification.** The European Commission (EC) has set as a priority for its new mandate the simplification of the current legal framework. The EC proposes regulatory simplification, not deregulation, to eliminate excessive bureaucratic burdens to become more competitive. I believe this is a very positive initiative. Moreover, we should work across the board to identify the areas in which such streamline is possible and deliver on that commitment soon.

3) **Promotion of innovation.** We need to be creative and have an equally attractive legal framework. Here I will refer to Artificial Intelligence (AI) and the crypto ecosystem. The emergence of generative AI forces us all to deploy capabilities to make the best use of it, to be more effective in our functions and be prepared for the risks that may arise. The EU has been a pioneer in its regulation, which aims to ensure that this new technology is used properly and implemented in a reliable, transparent, and secure way, guaranteeing at all times the fundamental rights. Us supervisors are working to make the most of AI in both our internal processes and the development of our supervisory functions to ensure its responsible and secure use.

   This leads me to briefly address the crypto-assets ecosystem, the Markets in Cryptoassets Regulation (the so-called MiCA Regulation) is the EU regulation governing the issuance and provision of services related to crypto-assets and stablecoins. The MiCA Regulation is the first and only legislation of its kind in the world and establishes common rules in the EU for issuers and crypto service providers. It is a step forward aimed at providing security for investors, although it does not provide the same protection currently afforded by other financial instruments. So, here is a message of prudence. For supervisors, it is a challenge in terms of the definition of the different possible issuers and providers and the cross-border characteristics of these new players. This is an initial framework for coverage in the EU, and we must remain mindful of global developments to assess the necessary adjustments.

The application of this new European legal framework on digitalisation is a challenge for everyone, but at the same time, an opportunity to increase our competitiveness and provide certainty to stakeholders.

4) **Financial culture.** In order for the retail investors and citizens in general to be part of the project of the Savings and Investments Union, we must foster financial literacy. We need to change the culture. This means facilitating the formation of informed decisions when investing savings and diversifying sources of financing, that is now so concentrated in the banking sector and creating tailored products or services for retail investors. Likewise, a robust legal framework and solid supervision need to be guaranteed so that they are appropriate to the risks assumed.

   A good example is the Swedish Investment Savings Account initiative, a simplified saving product with fiscal incentives for ordinary citizens, aimed at making investment in capital markets more appealing.

Before ending my presentation, I would like to share with you some thoughts regarding the assumption of extended supervisory competences by ESMA. ESMA is better suited to supervise systemic participants with significant cross-member activity as well as new European products or services like services around crypto-assets. This will require changes in the governance and resources of the ESMA.

Final remarks

We are facing major global challenges in a context of low productivity and lack of competitiveness in Europe. The contribution by private markets to boost competitiveness is crucial, particularly considering that the European economy is dominated by small and medium-sized enterprises; achieving deeper capital markets is fundamental. The diagnosis is clear and has been clear for quite some time. Now is the time for us to be bold and undertake a real transformation, which includes a change in the current culture.